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SUBJECT: SCENESETTER FOR SECRETARY VILSACK'S VISIT TO THE  
PHILIPPINES

SENSITIVE BUT UNCLASSIFIED

¶1. (SBU) Welcome to the Philippines. Following closely after two natural disasters that have affected millions of lives and damaged agricultural production, your visit holds special significance for the Embassy as well as for the Filipino people and government. Your visit will attract significant media attention and many Filipinos will study the content of your public remarks for indications of support for the bilateral relationship. The United States and the Philippines have a longstanding and deep relationship based on nearly 50 years of direct American administration, a Philippine government modeled on the U.S. government, broad economic ties, and an extensive interchange of people. The more than four million Filipino-Americans now constitute the largest Asian ethnicity in the United States, while some 250,000 U.S. citizens reside in the Philippines. Reflecting this important relationship, the U.S. Embassy here is one of the largest in the world.

¶2. (SBU) You are coming at an interesting and challenging time. The destruction caused by devastating back-to-back storms in the last month has strained government resources and will likely increase the incidence of poverty. Your visit presents an opportunity to build on the goodwill and gratitude stemming from the USG's fast and energetic response to these crises, and highlight the very positive U.S. relationship with the Philippines. Your emphasis on agriculture and the role of international trade will be especially timely and welcomed by President Gloria Macapagal-Arroyo, who has repeatedly called for the government, private sector, and development partners to work together to alleviate poverty, contribute to economic development, and promote peace.

Activities in a Nutshell

¶3. (U) During your visit, you will be briefed by the Mission Country Team; be the guest of honor at a dinner hosted by Philippine Secretary of Agriculture Arthur Yap; and participate in media events. You will also visit the International Rice Research Institute, view the American cemetery, and visit a modern flour mill that uses U.S. wheat.

The Economy in Brief

¶4. (U) The United States is the Philippines' largest trading partner, with over \$18 billion in two-way merchandise trade in 2008. Major U.S. exports include electronics and agricultural products. The U.S. is also one of the largest investors here, with over \$6.6 billion in equity. The Philippine economy grew by 7.3% in 2007, the fastest pace of growth in over three decades, but slowed to 4.3% in 2008, and will likely be in the 1-2% range for 2009. However, a resilient service sector (particularly a booming business process outsourcing industry) and strong overseas workers remittances (expected to increase to more than \$17 billion in 2009, more than 10% of Philippine GDP) have helped Qe Philippines through this

period of global economic slowdown.

15. (U) There has been limited progress over the past decade in reducing poverty and addressing the inequitable distribution of incomes. Almost half of the population here lives on \$2/day or less. Socio-economic development in the Philippines is uneven with wide disparities across regions and populations. Poverty is especially severe in rural areas. Most of the lagging regions and provinces are in Mindanao, at the southern end of the country, while Manila and neighboring areas represent the country's most developed region. While Mindanao features some of the country's more progressive cities and municipalities, human development indices of some of Mindanao's most depressed provinces approximate those of the world's poorest countries.

#### The Political Situation

16. (SBU) President Gloria Macapagal Arroyo assumed the Presidency in 2001 after a "people power" protest movement swept out her predecessor. An economist by trade, she is a tenacious leader who has faced a series of challenges to her rule, including unsuccessful impeachment efforts and low-level military coup attempts.

17. (SBU) Presidential elections set for May 2010 are already reshaping the political landscape as candidates begin aggressively campaigning. Notable candidates include Senator Benigno "Noynoy" Aquino III, a popular leader who decided to run for President following the death in July of his mother, former President Cory Aquino, one of the most cherished figures in Philippine politics. Another serious contender could be former President Joseph Estrada, who was ousted by popular discontent in 2001. In 2007, Estrada was

convicted of corruption and then pardoned by President Arroyo. Secretary of Agriculture Yap is rumored to be considering a run for the Senate. The U.S. could sustain a healthy bilateral relationship with the Philippines under any of these leaders, although we would expect an Estrada presidency to be plagued by controversy. These will be the first nationwide elections featuring computerized vote tabulation; the automation holds the promise of more accurate and rapid vote-counting, but many in the Philippines are anxious about the shift to a new and unfamiliar system.

18. (SBU) Although peace talks with separatist Moro Islamic Liberation Front (MILF) insurgents stalled after intense fighting broke out in Mindanao in 2008, government and MILF negotiators have since recommitted themselves to peaceful resolution of the conflict with a new ceasefire. Last month, the parties made another significant step forward by agreeing to create an International Contact Group for interested countries to observe and support the peace negotiations. While a new round of formal talks is not yet scheduled, observers are hopeful that the parties will continue to make progress in their informal discussions, leading to a formal resumption of negotiations. Even during her last few months in office, President Arroyo has publicly committed to advancing peace talks, aware that a robust peace process between the Philippine government and the MILF would encourage stability in the region and enhance economic development.

#### Human Rights

19. (SBU) President Arroyo has consistently expressed her commitment to resolving the complex problem of extra-judicial killings and has taken several steps in this direction. While many of these deaths and disappearances are more likely attributable to local disputes than to military or police action, it is clear that the government needs to do more to ensure that these crimes are fully investigated and that responsible parties -- whether or not they are connected to the military or police -- are brought to justice. The problem is closely related to a judicial system which is inefficient and strained beyond its capacity. Problems such as violence against women, abuse of children, child prostitution, child labor, trafficking in persons, and ineffective enforcement of worker rights are also common.

#### Development Challenges

¶10. (U) Economic development is a key U.S. objective in the Philippines. Accelerating development involves key, cross-cutting issues, principally: opening the economic system to more competition; curbing high population growth; improving agricultural productivity; basic education and health reforms; building infrastructure; harnessing fiscal resources; strengthening the capacity of local government units; effective law enforcement; improving the investment climate; promoting transparency and accountability; and addressing peace and security issues. President Arroyo has called repeatedly for unity and strong partnerships as the country grapples with global economic challenges and domestic political concerns with limited resources. Your visit to the Philippines provides a timely opportunity to reiterate continued U.S. government support for development and the still crucial role of international trade and investment.

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